

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Elba	County Gratiot
Audit Date 3/31/05	Opinion Date 6/14/05	Date Accountant Report Submitted to State: 7/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

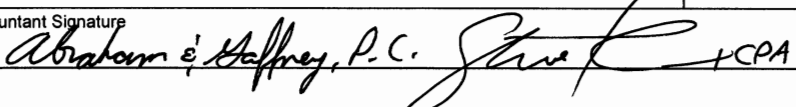
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 108 N. Spring St.	City St. Johns	State MI	ZIP 48879
Accountant Signature 		Date 7/27/05	

**Township of Elba
Gratiot County, Michigan**

FINANCIAL STATEMENTS

March 31, 2005

Township of Elba
Gratiot County, Michigan
March 31, 2005
BOARD OF TRUSTEES

Mr. Roger Slavik

Supervisor

Ms. Angie Morris

Clerk

Ms. Paula Strouse

Treasurer

Mr. Tom Bradley

Trustee

Ms. Connie Stehlik

Trustee

Township of Elba
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ABRAHAM & GAFFNEY, P.C.

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Kurt M. Lemmen, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Elba
Ashley, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Elba, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Elba, Michigan as of March 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 14, 2005

New Financial Reporting

Starting with fiscal year 2005, the Township of Elba, Michigan (the "Township") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Township's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Township. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Township's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Township's financial health.

The discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

A comparative analysis will be provided in future years, as it is not required in the first year of implementation of GASB 34.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State shared revenue, our largest revenue source, was approximately \$62,240 this year.
- Property taxes, our second largest revenue source, was approximately \$53,811.
- The Township has total net assets of \$494,423.
- Total fund balances related to the Township's governmental funds decreased by \$10,017.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township of Elba as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township of Elba in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005. A comparative analysis of data will be presented in future years when the information is available.

Assets	
Current assets	\$ 447,126
Noncurrent assets	<u>49,734</u>
Total assets	496,860
Liabilities	
Current liabilities	2,437
Net Assets	
Invested in capital assets	49,734
Restricted for other purposes	220,859
Unrestricted	<u>223,830</u>
Total net assets	<u>\$ 494,423</u>

The Township's total net assets were \$494,423 at March 31, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$223,830 at the end of the fiscal year. The net asset invested in capital assets were at \$49,734. The remainder, \$220,859, is restricted and is to be used for specified purposes as noted in the notes to the financial statements. The management's discussion and analysis will present a condensed comparative statement of net assets next year when we have two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

Revenue	
Program revenue:	
Charges for services	\$ 11,055
General revenue:	
Property taxes	53,811
State shared revenue	62,240
Investment earnings	2,264
Miscellaneous	<u>4,003</u>
Total revenue	133,373
Program Expenses	
General government	68,946
Public safety	15,892
Public works	54,803
Health and welfare	1,200
Recreation and cultural	<u>3,925</u>
Total program expenses	<u>144,766</u>
Change in Net Assets	<u><u>\$ (11,393)</u></u>

Governmental Activities

The Township's governmental revenues totaled \$133,373 with the greatest revenue source being state shared revenues. State shared revenues make up approximately 47 percent of total governmental revenue.

The Township incurred expenses of \$144,766 during the year. 48 percent of the governmental expenses are associated with the general government function.

The Township's Funds

The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township of Elba as a whole. The Township of Elba's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for the fiscal year ended March 31, 2005 include the General Fund, Street Lights Fund, Bridge Fund and the Fire Fund.

The General Fund pays for most of the Township's governmental services. The most significant service provided during the fiscal year was highway, streets, and bridges maintenance and repair, which incurred expenditures of \$47,268 for the fiscal year, which was approximately 39 percent of the General Fund total expenditures. The Street Light Fund and Bridge Fund are used to account for funds used in public works activities throughout the Township. The Fire Fund is used to account for activities related to fire protection.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. However, because several departments came in over budget at year-end, there was an overall unfavorable variance of approximately \$18,645 from budget in the General Fund. A majority of this overage resulted from public works projects. The other major funds did not have any material negative budget variances.

Capital Asset Administration

At the end of the fiscal year, the Township had approximately \$71,514 invested in a broad range of capital assets, including buildings, land, and equipment at cost. In addition, the Township has made certain investments in roads and drains within the Township of Elba. These assets are not reported in the Township of Elba's fund statements, because under Michigan law, these roads and drains are the property of the Gratiot County Road and Drain Commissions, respectively.

Current Economic Factors

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan is experiencing significant budget problems, and as they look for solutions, revenue sharing continues to be under attack. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive in the future.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk or Treasurer at the Township Hall.

BASIC FINANCIAL STATEMENTS

Township of Elba
STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 104,942
Investments	336,899
Receivables	444
Due from other governmental units	<u>4,841</u>
Total current assets	447,126
Noncurrent assets	
Capital assets, net	<u>49,734</u>
TOTAL ASSETS	496,860
LIABILITIES	
Accounts payable	1,513
Accrued wages	571
Due to other governmental units	<u>353</u>
TOTAL LIABILITIES	<u>2,437</u>
NET ASSETS	
Invested in capital assets	49,734
Restricted for other purposes	220,859
Unrestricted	<u>223,830</u>
TOTAL NET ASSETS	<u><u>\$ 494,423</u></u>

See accompanying notes to financial statements.

Township of Elba

STATEMENT OF ACTIVITIES

3/31/2005

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental activities			
General government	\$ 68,946	\$ 10,555	\$ (58,391)
Public safety	15,892	500	(15,392)
Public works	54,803	-	(54,803)
Health and welfare	1,200	-	(1,200)
Recreation and cultural	3,925	-	(3,925)
Total	<u>\$ 144,766</u>	<u>\$ 11,055</u>	\$ (133,711)
General revenues			
Property taxes			53,811
State shared revenue			62,240
Investment earnings			2,264
Miscellaneous			4,003
Total general revenues			<u>122,318</u>
Change in net assets			(11,393)
Net assets, beginning of the year			<u>505,816</u>
Net assets, end of the year			<u>\$ 494,423</u>

See accompanying notes to financial statements.

Township of Elba

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2005

	General	Street Lights	Bridge
ASSETS			
Cash and cash equivalents	\$ 76,196	\$ 6,547	\$ 1,817
Investments	113,197	-	188,338
Accounts receivable	-	-	-
Accrued interest receivable	-	-	425
Due from other governmental units	3,671	-	-
TOTAL ASSETS	\$ 193,064	\$ 6,547	\$ 190,580
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,247	\$ 266	\$ -
Accrued wages	571	-	-
Due to other governmental units	353	-	-
TOTAL LIABILITIES	2,171	266	-0-
FUND BALANCES			
Reserved for			
Cemetery maintenance	-	-	-
Unreserved			
Undesignated, reported in			
General fund	190,893	-	-
Special revenue funds	-	6,281	190,580
TOTAL FUND BALANCES	190,893	6,281	190,580
TOTAL LIABILITIES AND FUND BALANCES	\$ 193,064	\$ 6,547	\$ 190,580

See accompanying notes to financial statements.

Fire	Nonmajor Governmental Funds (Cemetery)	Total Governmental Funds
\$ 19,580	\$ 802	\$ 104,942
3,229	32,135	336,899
19	-	19
-	-	425
1,170	-	4,841
<u>\$ 23,998</u>	<u>\$ 32,937</u>	<u>\$ 447,126</u>
\$ -	\$ -	\$ 1,513
-	-	571
-	-	353
<u>-0-</u>	<u>-0-</u>	<u>2,437</u>
-	32,937	32,937
-	-	190,893
23,998	-	220,859
<u>23,998</u>	<u>32,937</u>	<u>444,689</u>
<u>\$ 23,998</u>	<u>\$ 32,937</u>	<u>\$ 447,126</u>

Township of Elba

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

3/31/2005
December 31, 2004

Total fund balance - governmental funds \$ 444,689

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds:

The cost of capital assets is	\$ 71,514	
Accumulated depreciation is	<u>(21,780)</u>	
Capital assets, net		<u>49,734</u>

Net assets of governmental activities \$ 494,423

See accompanying notes to financial statements.

Township of Elba

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended March 31, 2005

	General	Street Lights
REVENUES		
Taxes	\$ 34,438	\$ -
Intergovernmental	62,240	-
Charges for services	9,705	-
Interest and rents	1,009	31
Other	3,992	-
TOTAL REVENUES	111,384	31
EXPENDITURES		
Current		
General government	67,570	-
Public safety	-	-
Public works	48,350	3,274
Health and welfare	1,200	-
Recreation and cultural	3,925	-
TOTAL EXPENDITURES	121,045	3,274
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,661)	(3,243)
Fund balances, beginning of year	200,554	9,524
Fund balances, end of year	\$ 190,893	\$ 6,281

See accompanying notes to financial statements.

Bridge	Fire	Nonmajor Governmental Funds (Cemetery)	Total Governmental Funds
\$ 576	\$ 18,797	\$ -	\$ 53,811
-	-	-	62,240
-	500	850	11,055
1,201	8	15	2,264
11	-	-	4,003
1,788	19,305	865	133,373
-	-	-	67,570
-	15,892	-	15,892
3,179	-	-	54,803
-	-	-	1,200
-	-	-	3,925
3,179	15,892	-0-	143,390
(1,391)	3,413	865	(10,017)
191,971	20,585	32,072	454,706
<u>\$ 190,580</u>	<u>\$ 23,998</u>	<u>\$ 32,937</u>	<u>\$ 444,689</u>

Township of Elba

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Net change in fund balances - total governmental funds \$ (10,017)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,500	
Depreciation expense	<u>(2,876)</u>	
Excess of depreciation expense over capital outlay		<u>(1,376)</u>
Change in net assets of governmental activities		<u><u>\$ (11,393)</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Elba, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) Townships in Gratiot County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two Trustees and provides services to its residents in many areas including fire protection, sewer, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Township of Elba. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Elba contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government units as a whole.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds and nonmajor fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Street Lights Fund is used to account for the financial resources related to providing street lighting for certain Township streets.

Township of Elba
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- c. The Bridge Fund is used to account for the financial resources related to the maintenance of roads and bridges within the Township.
- d. The Fire Fund is used to account for the financial resources related to providing fire protection to the Township's citizens.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown in the financial statements were prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Township Board.

Township of Elba

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- b. Formal budgetary integration is employed as a management control device during the year at the activity level for the General Fund and total expenditure level for the Special Revenue Fund.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or as amended by the Township Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consists of savings and checking accounts and certificates of deposit with an original maturing of less than 90 days. Investments consist of certificates of deposit with original maturities of greater than 90 days.

7. Property Tax

The Township of Elba bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are due September 14 and February 14, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Gratiot County Treasurer on March 1 of the year following the levy. The Gratiot County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenue in the period for which they are levied.

The Township is permitted to levy up to \$.9514 per \$1,000 of assessed valuation for general governmental service and additional amounts for Bridge and Fire. For the year ended March 31, 2005, the Township levied .9514 and .9500 mills for general governmental services and Fire. The total taxable value for the 2004 levy for property within the Township was \$26,185,212.

8. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	30 years
Equipment	5 - 25 years

9. Comparative Data

Comparative data has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Accounting Change

As of April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$70,014, which was the restricted amount previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Township's applicable capital assets.
- The fund financial statements focus on major funds rather than fund types.

The implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and various other disclosures.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 Days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.

Township of Elba

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000 Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

The Township's deposits at March 31, 2005, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 29,701	\$ 30,788
Savings accounts	70,130	69,270
Certificates of deposit	<u>342,010</u>	<u>342,010</u>
	<u>\$ 441,841</u>	<u>\$ 442,068</u>

Deposits of the Township are maintained with federally insured banks located in the State of Michigan, with all accounts maintained in the name of the Township. As of March 31, 2005, the Township's accounts were insured by the FDIC for \$130,688 and the amount of \$311,380 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005, was as follows:

Governmental activities

	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2005</u>
Capital assets not being depreciated:				
Land	\$ 17,895	\$ -	\$ -	\$ 17,895
Capital assets being depreciated:				
Buildings and improvements	24,000	-	-	24,000
Equipment	<u>28,119</u>	<u>1,500</u>	<u>-</u>	<u>29,619</u>
Total capital assets being depreciated	52,119	1,500	-0-	53,619

Township of Elba
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE C: CAPITAL ASSETS - CONTINUED

Governmental activities - continued

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Less accumulated depreciation for:				
Buildings and improvements	\$(1,600)	\$(800)	\$ -	\$(2,400)
Equipment	(17,304)	(2,076)	-	(19,380)
Total accumulated depreciation	(18,904)	(2,876)	-0-	(21,780)
Net capital assets being depreciated	33,215	(1,376)	-0-	31,839
Net capital assets - governmental activities	<u>\$ 51,110</u>	<u>\$(1,376)</u>	<u>\$ -0-</u>	<u>\$ 49,734</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ <u>2,876</u>
--------------------	-----------------

NOTE D: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following is the fund balance reserve as of March 31, 2005:

Nonmajor Governmental Fund	
Cemetery Perpetual Care	
Reserved for perpetual care	\$ <u>32,937</u>

NOTE E: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2004:

Governmental activities	
Restricted for	
Street lights	\$ 6,281
Bridge projects	190,580
Fire protection	<u>23,998</u>
	<u>\$ 220,859</u>

Township of Elba

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the basic financial statements, the Township's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended March 31, 2005, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Supervisor	\$ 3,700	\$ 3,724	\$ 24
Board of review	600	672	72
Assessor	8,100	9,063	963
Elections	900	2,646	1,746
Cemetery	9,850	11,065	1,215
Public works			
Highways, streets and bridges	23,200	47,268	24,068
Recreation and cultural			
Park expenses	1,500	3,925	2,425

NOTE G: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Township also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE H: RETIREMENT PLAN

The Township of Elba is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Elba Pension Plan is a money purchase defined contribution pension benefit plan. Contributions are based on an employee's annual calendar year compensation. During the year ended March 31, 2005, the Township of Elba made contributions for all participating employees of 10% per employee.

All Township employees are eligible to participate in the plan. All eligible employees, except Board of Review members, participate in the plan. The contributions fund the premiums for Individual Deferred Annuity policies with the Travelers Insurance Company through Municipal Retirement Systems, Inc.

For the year ended March 31, 2005, the Township of Elba had a total payroll of \$33,384. The Township of Elba Retirement Plan covered payroll for the period ended March 31, 2005 of \$25,500. The Township of Elba made contributions for the 2004 plan year to the retirement plan in the amount of \$2,550.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Elba

General Fund

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current property taxes	\$ 29,000	\$ 29,000	\$ 27,051	\$ (1,949)
Administrative fees	-	-	7,387	7,387
Total taxes	29,000	29,000	34,438	5,438
Intergovernmental				
State shared revenue	59,000	59,000	62,240	3,240
Charges for services				
Cemetery	9,000	9,000	9,705	705
Interest and rents				
Interest	1,000	1,000	1,009	9
Other revenue				
Miscellaneous	2,600	2,600	3,992	1,392
TOTAL REVENUES	100,600	100,600	111,384	10,784
EXPENDITURES				
General government				
Legislative	13,000	14,800	11,290	3,510
Supervisor	3,700	3,700	3,724	(24)
Clerk	13,600	16,650	12,422	4,228
Board of review	600	600	672	(72)
Treasurer	8,800	9,100	8,392	708
Assessor	6,500	8,100	9,063	(963)
Elections	3,400	900	2,646	(1,746)
Township hall	9,900	8,900	8,296	604
Cemetery	10,600	9,850	11,065	(1,215)
Total general government	70,100	72,600	67,570	5,030
Public works				
Drains	2,000	2,100	1,082	1,018
Highways, streets and bridges	23,200	23,200	47,268	(24,068)
Total public works	25,200	25,300	48,350	(23,050)
Health and welfare				
Ambulance contracted services	2,500	2,500	1,200	1,300

Township of Elba

General Fund

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Recreation and cultural				
Park expenses	1,500	1,500	3,925	(2,425)
Other				
Other	500	500	-	500
TOTAL EXPENDITURES	<u>99,800</u>	<u>102,400</u>	<u>121,045</u>	<u>(18,645)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	800	(1,800)	(9,661)	(7,861)
Fund balance, beginning of year	<u>200,554</u>	<u>200,554</u>	<u>200,554</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 201,354</u>	<u>\$ 198,754</u>	<u>\$ 190,893</u>	<u>\$ (7,861)</u>

Township of Elba

Street Lights Fund

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ -	\$ -	\$ 31	\$ 31
EXPENDITURES				
Public works				
Street lighting	<u>3,500</u>	<u>3,500</u>	<u>3,274</u>	<u>226</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(3,500)	(3,500)	(3,243)	257
Fund balance, beginning of year	<u>9,524</u>	<u>9,524</u>	<u>9,524</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 6,024</u>	<u>\$ 6,024</u>	<u>\$ 6,281</u>	<u>\$ 257</u>

Township of Elba

Bridge Fund

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ -	\$ -	\$ 576	\$ 576
Interest	500	500	1,201	701
Other	-	-	11	11
TOTAL REVENUES	500	500	1,788	1,288
EXPENDITURES				
Public works				
Bridges	40,000	40,000	3,179	36,821
EXCESS OF REVENUES (UNDER) EXPENDITURES	(39,500)	(39,500)	(1,391)	38,109
Fund balance, beginning of year	191,971	191,971	191,971	-0-
Fund balance, end of year	<u>\$ 152,471</u>	<u>\$ 152,471</u>	<u>\$ 190,580</u>	<u>\$ 38,109</u>

Township of Elba

Fire Fund

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 16,100	\$ 16,100	\$ 18,797	\$ 2,697
Charges for services				
Fire runs	-	-	500	500
Interest	-	-	8	8
TOTAL REVENUES	16,100	16,100	19,305	3,205
EXPENDITURES				
Public safety				
Fire protection	16,100	16,100	15,892	208
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	3,413	(3,413)
Fund balance, beginning of year	20,585	20,585	20,585	-0-
Fund balance, end of year	<u>\$ 20,585</u>	<u>\$ 20,585</u>	<u>\$ 23,998</u>	<u>\$ 3,413</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

Member
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and
Michigan Association of
Certified Public Accountants

MANAGEMENT LETTER

To the Members of the Township Board
Township of Elba
Ashley, Michigan

As you know, we have recently completed our audit of the records of the Township of Elba, Michigan as of and for the year ended March 31, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Township should monitor and amend budgets for applicable funds as necessary.

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated. These were noted in the General Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Board shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We suggest that the Township adopt and amend its budgets through Board resolution and monitor budgeted against actual expenditures.

2. The Township should establish a capitalization threshold in order to track material assets purchased.

During the course of our audit, it was noted the Township does not have a formal written capitalization threshold policy in place. This policy would set forth a dollar threshold for items purchased by the Township, which would be considered material, long-lived assets that should be capitalized and depreciated.

We suggest the Township adopt a capitalization threshold policy.

3. The Township should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Township may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, deposit with bank, record in ledger, prepare bank reconciliations, etc.).

The main concept of an internal control structure is to assure that no one (1) individual handles all aspects of processing a transaction. The Township's current process allows one (1) individual to process a transaction.

While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest the Township assure that accounting duties are segregated to the extent possible to ensure efficiency in the processing of transactions and to strengthen the internal control systems. At a minimum, some portion of the receipting, depositing, and bank reconciliation process should be segregated.

4. All activities of the Township should be recorded in the computerized general ledger system.

During the course of our audit, it was noted the Township does not record certain activities (Parks and Right of Way) in the computerized general ledger system.

We suggest the Township record all financial activity in the Township's computerized general ledger system.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated June 14, 2005.

This report is intended solely for the use of management and the Board of Trustees of the Township of Elba and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants.

June 14, 2005